

Message Text

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12

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 AID-20 COME-00 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08 CEA-02

INT-08 FEA-02 SCI-06 AGR-20 DRC-01 IO-14 DOTE-00

(ISO) W

----- 088310

R 250621Z JAN 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 9501

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMCONSUL HONG KONG

AMEMBASSY LUXEMBOURG

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS UNN

USMISSION OECD PARIS UNN

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STATE ALSO FOR T/IEP

E.O. 11652: N/A

TAGS: ENRG, ECON, JA, EFIN

SUBJ: ENERGY: BALANCE OF PAYMENTS OUTLOOK - JAPAN

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REF: A. STATE 7324; B. STATE 3452; C. STATE 2951; D. TOKYO 847

SUMMARY: FOLLOWING ARE BALANCE OF PAYMENTS PROSPECTS REQUESTED REFTELS A, B, C AND PROMISED REFTEL D, PARA 11.

1. OVERVIEW: RAMIFICATIONS OF OIL CRISIS NOW CONSIDERED FUNDAMENTALLY B/P PROBLEM BY MINFIN FUKUDA AND OTHER GOJ OFFICIALS. THIS DUE TO IMPROVED SUPPLY POSITION ON OIL IMPORTS OVER EARLIER PROJECTIONS. FOR SOME TIME JAPAN'S B/P OBJECTIVE HAS BEEN TO ACHIEVE EQUILIBRIUM ON BASIC BALANCE (1973 BASIC BALANCE MOVED INTO DEFICIT REACHING \$9.7 BIL FOR YEAR). ALL OF THESE FACTORS COMBINED WERE EVIDENTLY CONSIDERED WHEN ABANDONING YEN/DOLLAR RATE OF 265 TO MEET PROSPECTIVE PAYMENTS DEFICITS ALTHOUGH SPECULATIVE PRESSURE WAS DECIDING FACTOR ON YEN MARKET RATE. EMBASSY NOTES THAT SINCE RECENT C-20 ROME MEETING AND FRENCH FLOAT, THERE IS NOW RECOGNITION, AT LEAST IN THE PRESS, OF JAPAN'S RESPONSIBILITIES TO THE INTERNATIONAL MONETARY SYSTEM OF AVOIDING COMPETITIVE DEVALUATION.

2. B/P FORECAST (HIGHLIGHTS REPORTED REFTEL D, PARA 8): EMBASSY CONSIDERS GOJ (EPA) FORECAST TO BE WORKMANLIKE OFFICIAL ASSESSMENT PRODUCED BY JAPANESE STYLE CONSENSUS PROCESS AND NO DOUBT INCORPORATING SENSITIVITIES TO POLITICAL FACTORS BOTH DOMESTIC AND FOREIGN. FORECASTERS TOLD EMBOFF OF SERIOUS TECHNICAL DIFFICULTIES IN TAKING INTO ADEQUATE ACCOUNT SO MANY DIFFERENT BUT INTERRELATED FACTORS BESIDES OIL PRICE IMPACT. THESE INCLUDE: (1) DOMESTIC AND WORLD INFLATION; (2) 1973 DOMESTIC CYCLICAL REVIVAL AND PROSPECTIVE "DOWNTURN"; (3) SHORT-AGES OF DOMESTIC PRODUCTS DURING PAST SIX MONTHS; (4) INVENTORY BUILDING, STOCKPILING/SPECULATION OF A WIDE VARIETY OF IMPORTED AND OTHER GOODS; (5) RISE OF FOREIGN RAW MATERIAL PRICES AND UNCERTAIN PRICE OUTLOOK; (6) RECENT SHARP INCREASES IN JAPANESE EXPORT PRICES; (7) CONTINUING IMPACT OF PAST EXCHANGE REALIGNMENTS; AND (8) WORLD TRADE PROSPECTS. ORIGINAL B/P FORECAST OF MID-DEC (REPORTED TOKYO 63) WAS SUBSTANTIALLY REVISED (ALTHOUGH OFFICIAL GNP FORECAST WAS NOT FOLLOWING DEC OIL PRICE INCREASE. REVISED FORECAST, LIMITED OFFICIAL USE

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SHOWN BELOW, ALSO TAKES INTO ACCOUNT ANTICIPATED IMPACT OF JAN YEN DEVALUATION TO 300/DOLLAR. (B/P FIGURES FOR CY 73 REPORTED TOKYO 890, PARA 4.)

(IN \$ BIL)

JFY 74 CHANGE FROM JFY 73 (B/P SIGN)

	REVISED	ORIGINAL	REVISED
EXPORTS	47.1	PLUS 6.1	PLUS 8.8

IMPORTS	-43.7	PLUS 4.0	PLUS 8.4
TRADE BAL	3.4	PLUS 2.1	PLUS 0.4
INVISIBLES	-3.5	- 0.1	PLUS 0.1
TRANSFERS	-0.35	- 0.05	-0.05
CURRENT ACCOUNT	-0.45	PLUS 1.950	PLUS 0.45
L-T CAP	-4.4	PLUS 3.0	PLUS 3.4
BASIC BAL	-4.85	PLUS 4.950	PLUS 3.85

3. EMBASSY COMMENTS: EMBASSY CONSIDERS TRADE AND CURRENT ACCOUNT FORECAST TO BE ON CONSERVATIVE SIDE. OUTLOOK FOR LONG-TERM CAPITAL EXPORTS DEPENDS VERY MUCH UPON GOJ FOREX CONTROL POLICIES, SO THAT BASIC BALANCE UNDER CONSIDERABLE GOJ CONTROL. EMBASSY NOTES OMISSION OF USUAL FORECAST OF SHORT-TERM CAPITAL MOVEMENTS AND OVERALL BALANCE. CURRENT ACCOUNT PROSPECTS JFY 74 ORIGINALLY SET AT \$1.1 BIL SURPLUS BUT NOW REVISED TO SMALL \$450 MIL DEFICIT. THIS REPRESENTS IMPROVEMENT OVER LAST HALF 1973 DURING WHICH SEASONALLY ADJUSTED ANNUAL RATE DEFICIT REACHED \$2.2 BIL AND WHEN OIL IMPORTS WERE AT THE OLD PRICES.

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(ISO) W

----- 088308

R 250621Z JAN 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 9502

INFO AMEMBASSY BERN

AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY CANBERRA
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AMEMBASSY STOCKHOLM
USMISSION USEC BRUSSELS
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4. EXPORTS: EXPORTS FORECAST TO INCREASE 23 PERCENT JFY 73-74 AS AGAINST ONLY 16.1 PERCENT IN ORIGINAL FORECAST. EPA OFFICIAL INDICATES ASSUMPTION IS THAT VOLUME WILL INCREASE BY 5 PERCENT AS AGAINST ASSUMPTION IN ORIGINAL FORECAST OF ONLY ONE PERCENT GAIN. EXPORT PRICE INCREASE NOW REVISED SLIGHTLY UPWARD TO LIMITED OFFICIAL USE

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ABOUT 17 PERCENT FROM 15 PERCENT. EMBASSY NOTES THAT EXPORT VOLUME INCREASE PROJECTED IS TWICE THAT PROJECTED FOR REAL GNP. JAPANESE BUSINESSMEN REPORT THAT CURRENT YEN300/DOLLAR RATE HAS MADE JAPANESE GOODS INTERNATIONALLY VERY COMPETITIVE AGAIN. EVEN LARGE TRADING COMPANY, WHICH TRADITIONALLY IS NET IMPORTER, ANTICIPATES BECOMING NET EXPORTER IN CY 74 AND IS PROJECTING INCREASED EXPORTS OF VIRTUALLY ALL ITEMS AND TO ALL AREAS. REPORTS INDICATE INCREASES IN AUTO EXPORTS ESPECIALLY BRIGHT IN VIEW OF EXPECTED DROP IN DOMESTIC SALES. EXPORT ORDER BOOKS FULL FOR SHIP BUILDERS. LARGE NUMBER OF FOREIGN DIRECT INVESTMENT (FDI) PROJECTS ALREADY ANNOUNCED FOR RAW MATERIAL DEVELOPMENT AND BUILDING BASIC INDUSTRIES ABROAD, WILL INEVITABLY BE TIED TO EXPORTS OF JAPANESE CAPITAL EQUIPMENT AND HELP PROMOTE EXPORT GROWTH. FOR EXAMPLE, JAPAN EXIMBANK MADE NEW CREDIT COMMITMENT OF OVER \$3.1 BIL (COMPUTED AT AVERAGE 1973 RATE OF YEN273/DOLLAR) IN CY 1973, OR 61.5 PERCENT MORE THAN YEN COMMITMENTS IN CY 1972 (EXPORTS ON OTHER HAND ONLY INCREASED BY 29.3 PERCENT CY 1972-73). FORECAST IS FOR CONTINUED GROWTH IN JFY 74 AS EXIMBANK BUDGET INDICATES GROWTH IN LOANS OUTSTANDING TO RISE BY 21.2 PERCENT (YEN522 BIL) JFY 74 COMPARED WITH INCREASE 20.9 PERCENT (YEN426 BIL) ANTICIPATED IN CURRENT FISCAL YEAR. GOJ DOMESTIC STRATEGY OF DEFLATING DOMESTIC DEMAND WILL INEVITABLY FREE UP GOODS AVAILABLE FOR EXPORT. THUS,

JAPANESE ECONOMIC SLOWDOWN LIKELY TO STIMULATE EXPORT EFFORTS.
 ASSUMING FAVORABLE ECONOMIC
 PROSPECTS ELSEWHERE, EMBASSY BELIEVES 5 PERCENT INCREASE
 IN EXPORT VOLUME COULD EASILY BE ATTAINED AND MAY WELL
 BE EXCEEDED DURING JFY 74. FORECAST OF
 DOLLAR VALUE MORE DIFFICULT TO ASSESS. YEN PRICES OF
 JAPANESE EXPORTS ARE INCREASINGLY RAPIDLY (BY 15.9 PERCENT
 FROM JUNE-DEC 73) AND THE ASSUMPTION IN THE OFFICIAL
 FORECAST (WHICH ARE DOLLAR PRICES) MAY BE CONSERVATIVE.

PERCENT CHANGE JFY 73-74

ORIG FORECAST REVISED FORECAST

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EXPORTS: VALUE	PLUS 16.1	PLUS 23.0
VOLUME	PLUS 1.0	PLUS 5.0
PRICES	PLUS 15.0	PLUS 17.1

5. IMPORTS: VALUE OF IMPORTS PROJECTED TO INCREASE
 23.8 PERCENT JFY 73-74 IN REVISED FORECAST COMPARED WITH
 11.5 PERCENT IN ORIGINAL FORECAST. ANTICIPATED VALUE OF
 OIL IMPORTS PLACED AT \$15 BIL IN REVISED FORECAST COM-
 PARED WITH \$7 BIL IN ORIGINAL FORECAST (US OIL EXECUTIVES
 INFORM EMBASSY THEY ANTICIPATE COST TO BE APPROXIMATELY \$20
 BILLION FOR SAME PERIOD.) PROPORTION OF OIL TO TOTAL
 JFY 74 IMPORTS IS 34 PERCENT. IMPLICATION IS
 THAT NON-OIL IMPORTS ARE ANTICIPATED TO INCREASE FROM
 \$28.3 BIL JFY 73 TO ONLY \$28.7 BIL JFY 74 OR ONLY 1.4
 PERCENT IN VALUE. HOWEVER, RELATIVE TO CY 73 WHEN NON-
 OIL IMPORTS AMOUNTED TO \$25.6 BIL FOB (OIL AND PETROL
 PRODUCTS \$6.7 BIL CIF) IMPLIED INCREASE BY JFY 74 WOULD
 BE MORE THAN \$3 BIL OR 12 PERCENT. EVEN PRIOR TO JAN
 YEN DEVALUATION EPA FORECASTER ANTICIPATED DROP IN IMPORT
 VOLUME OF MANUFACTURED GOODS. THIS VIEW BORNE OUT BY
 BUSINESS CONTACTS. FORECASTERS WORRY ABOUT POSSIBLE
 INCREASES IN RAW MATERIALS OTHER THAN OIL WHICH ALREADY
 AT HIGH LEVELS, BECAUSE JAPAN'S BALANCE OF PAYMENTS
 STRUCTURE IS CONSIDERED SO VULNERABLE. RECENT OIL PRICE
 HIKES AND SUBSEQUENT DEVELOPMENTS HAVE SIGNIFICANTLY
 WORSENERED JAPAN'S TERMS OF TRADE.

6. LONG-TERM CAPITAL: EMBASSY CONSIDERS FORECAST VERY
 ROUGH GUESS. RESULTS COULD BE QUITE DIFFERENT IF FOREX
 CONTROLS WERE ALTERED, IN CY 73, WHEN CURRENT ACCOUNT

IN BALANCE, NET LONG-TERM CAPITAL OUTFLOWS ABROAD ROSE
TO
ALMOST \$10 BIL (PARTLY BECAUSE OF OFFICIAL GOJ ENCOURAGE-
MENT) AND FINANCED BY \$3.7 BIL SHORT-TERM BORROWING
ABROAD AND \$6 BIL REDUCTION IN OFFICIAL RESERVES.
POLICY OF ENCOURAGING INVESTMENT ABROAD HAS ALREADY
BEEN MODERATED. REVISED FOREX CONTROLS NOW PERMIT WIDER
RANGE OF INFLOWS FOREIGN FUNDS, OFFSHORE BORROWING FOR FDI,
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AND TO SOME EXTENT DISCOURAGE OUTFLOWS INVESTMENT FUNDS.
EMBASSY SEES NO REASON WHY, WITH VIRTUAL EQUILIBRIUM ON
CURRENT ACCOUNT PROJECTED JFY 74, NET OUTFLOWS OF LONG-
TERM CAPITAL NEED CAUSE ANY REDUCTION IN OFFICIAL RE-
SERVES. IN PAST, JAPAN HAS BEEN VERY SUCCESSFUL IN
BORROWING ABROAD FUNDS IN SUFFICIENT AMOUNTS TO MEET
CURRENT ACCOUNT AND LONG-TERM FOREIGN INVESTMENT NEEDS.
GOJ NOW CONSIDERS IT APPROPRIATE FOR JAPAN TO BE SIG-
NIFICANT SUPPLIER OF LONG-TERM INVESTMENT ABROAD, PARTLY
TO DEVELOP NEW SOURCES OF RAW MATERIAL SUPPLIES AND
ALSO TO ESTABLISH MANUFACTURING PLANTS IN LOW WAGE
COUNTRIES (E.G. SEA COUNTRIES) OR TO AID INDUSTRIALI-
ZATION OF LDC'S. TO DATE, SUCH INVESTMENTS FINANCED
PRIMARILY THROUGH DOMESTIC FUNDS (I.E. DRAWDOWN OF
RESERVES) TO BUILD UP NET FOREIGN INVESTMENT POSITION
OF JAPANESE PRIVATE SECTOR. JAPAN HAS BEEN HESITANT
TO EMPLOY TECHNIQUE (WIDELY USED BY OTHER INVESTING
COUNTRIES) OF BORROWING ABROAD TO FINANCE FDI AND ALLOW-
ING FUTURE EARNINGS GROWTH TO CREATE NET FOREIGN INVEST-
MENT EQUITY BASE. EVEN MITI MINISTER RECALLS THAT U.S.
MAINTAINED LONG-TERM INVESTMENT FLOWS DESPITE B/P DEFICITS
AND WEAKNESS OF DOLLAR (TOKYO 1042, PARA 4 NOTAL).
EMBASSY NOTES THAT SUCH VIEWS FAIL TO RECOGNIZE THAT
U.S. METHOD OF FINANCING FDI DUE TO SPECIAL RESERVE
STATUS OF DOLLAR WHICH CLEARLY NOT CASE OF JAPANESE
YEN.
SHOESMITH

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Message Attributes

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Draft Date: 25 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
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